STATE OF MONTANA

Report to the Legislature

DEPARTMENT OF INSTITUTIONS
MONTANA DEVELOPMENTAL CENTER

Financial-Compliance Audit for the
Two Fiscal Years Ended June 30, 1985

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MONTANA
STATE CAPITOL • HELENA

STATE OF MONTANA

Report to the Legislature

DEPARTMENT OF INSTITUTIONS

MONTANA DEVELOPMENTAL CENTER

Financial-Compliance Audit for the
Two Fiscal Years Ended June 30, 1985

Direct comments/inquiries to:

Office of the Legislative Auditor
Room 135, State Capitol
Helena, Montana 59620
(406) 444-3122

85-23

FINANCIAL COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office.

Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Members of the Legislative Audit Committee:

Senator Judy Jacobson, Chairman
Senator Dave Fuller
Senator Pat Goodover
Senator Tom Keating

Representative Steve Waldron, Vice Chairman
Representative John Cobb
Representative Roland Kennerly
Representative Bruce Simon

Audit staff involved in this audit include:

Lorry Parriman, Manager
Wayne Guazzo, Supervisor
Helen Andrus, Senior Auditor
Don Davies, Staff Auditor
Kurt Siltman, Staff Auditor

STATE OF MONTANA
Office of the Legislative Auditor
STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

SCOTT A. SEACAT
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS:
JAMES GILLETT
FINANCIAL-COMPLIANCE AUDITS
JIM PELLEGRINI
PERFORMANCE AUDITS
LEGAL COUNSEL:
JOHN W. NORTHEY

November 1985

The Legislative Audit Committee
of the Montana State Legislature:

Included in this document is the financial-compliance report on the Montana Developmental Center's financial activity for fiscal years 1983-84 and 1984-85. The center's written response to audit recommendations is included in the back of the audit report.

We thank the superintendent and center's staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

TABLE OF CONTENTS

TABLE OF CONTENTS (Continued)

ADMINISTRATIVE OFFICIALS

DEPARTMENT OF INSTITUTIONS

Carroll South	Director
Curt Chisholm	Deputy Director
Jim Currie	Administrator Management Services Division
Jerry Hoover	Administrator Mental Health and Residential Service Division

MONTANA DEVELOPMENTAL CENTER

Richard Heard	Superintendent
Carole R. Jones	Fiscal Director

SUMMARY OF RECOMMENDATIONS

This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's response.

	Page
Recommendation #1	
The center use the Chapter I grant funds for only those residents eligible under the program regulations.	3
Agency Response: Concur. See page 29.	
Recommendation #2	
The center accurately prepare monthly financial reports for the School Nutrition grant.	4
Agency Response: Concur. See page 29.	
Recommendation #3	
The Department of Military Affairs establish procedures to ensure the FEMA grants are properly closed out in a timely manner.	5
Agency Response: Concur. See page 29.	
Department of Military Affairs Response: Concur. See page 31.	
Recommendation #4	
The center:	
A. Make only expenditures demanding immediate payments from the Contingent Revolving Fund in accordance with state law.	6
Agency Response: Concur. See page 29.	
B. Reimburse the Contingent Revolving Fund on a more frequent basis.	6
Agency Response: Concur. See page 29.	
C. Reduce the balance of the Contingent Revolving Fund to meet the minimum demonstrated needs of the center.	6
Agency Response: Concur. See page 30.	

INTRODUCTION

We performed a financial-compliance audit of the Montana Developmental Center for fiscal years 1983-84 and 1984-85. The objectives of the audit were to: 1) determine if the center's financial schedules present fairly the results of operations for the two fiscal years ended June 30, 1985; 2) determine if the center complied with applicable laws and regulations; and 3) make recommendations for improvements in the management and internal controls of the center.

This report contains seven recommendations to the center and one recommendation to the Department of Military Affairs. These recommendations address areas where the center can improve management, financial reporting, and compliance with laws and regulations. Other areas of concern deemed not to have a significant effect on the successful operations of the center are not specifically included in the report, but have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. Each report section discloses the cost, if significant, of implementing the recommendation.

We thank the superintendent and his staff for their cooperation and assistance during the audit.

BACKGROUND

The legislature recently changed the name of the Boulder River School and Hospital. As of October 1, 1985, the school is called the Montana Developmental Center.

The Montana Developmental Center's functions and responsibilities are to: 1) provide skillful and humanely administered care and treatment for each person who is developmentally disabled; 2) provide individualized treatment with the goal of deinstitutionalization; and 3) assure adequate protection of all rights of the residents.

The center has 251 beds. Eighty-one percent of the center's beds were occupied at June 30, 1985, distributed as follows:

	June 30, 1985		Fiscal Year 84-85
Type of Care	Beds Occupied	Beds Available	Daily Average Occupancy
Intermediate	204	251	202

The center had 443.4 full-time equivalent staff positions as of June 30, 1985.

Source: The information contained in the background section of this report was obtained from officials of the Montana Developmental Center.

PRIOR AUDIT RECOMMENDATIONS

The prior audit of the Montana Developmental Center was conducted for the two fiscal years ended June 30, 1983. The report contained eleven recommendations for improvement of center operations. The center concurred with ten of the recommendations and partially concurred with one.

We reviewed the status of prior audit recommendations and determined that the Montana Developmental Center has implemented six, and it partially implemented five. Three of the five recommendations which were partially implemented relate to improper recording of expenditures and donations and are discussed on pages 8 through 10 of this report. The remaining recommendations not fully implemented have been discussed with management.

FEDERAL COMPLIANCE

Our audit of federal moneys was performed in accordance with the requirements in the U.S. Office of Management and Budget, Circular A-102, Attachment P. This circular provides for independent audits of financial operations, including compliance with certain federal laws and regulations.

The Montana Developmental Center was a subgrantee receiving federal funds from the agencies listed on page 22. We reviewed

the major compliance areas in the Chapter I Subgrant and School Funds Subgrant. Areas reviewed include specific grant provisions, subgrantee requirements, reports to grantors, and cost allowability.

Based on our examination, we found that, for the items tested, except for the items concerning Chapter I questioned costs and the School Nutrition Grant reports discussed in the following two sections of this report, the center complied with the material terms and conditions of the federal grant regulations. Nothing came to our attention indicating noncompliance in items not tested.

Chapter I Questioned Costs

A teacher's aide, whose salary was paid with Chapter I grant funds, spent 7.7 percent of her time working with residents over the age of 21. Federal Regulations require that the Chapter I grant be used only to meet the special needs of educationally deprived children under the age of 21. Because the teacher's aide worked with two residents who did not qualify under Chapter I regulations, we question the allowability of $722 in costs.

RECOMMENDATION #1

WE RECOMMEND THE CENTER USE THE CHAPTER I GRANT FUNDS FOR ONLY THOSE RESIDENTS ELIGIBLE UNDER THE PROGRAM REGULATIONS.

School Nutrition Grant Reports

The center is required to submit a monthly financial report for the School Nutrition grant to the Office of Public Instruction (OPI). The financial report details the costs of food, labor, etc., associated with the grant. We tested two monthly financial reports prepared during our audit period and found the costs in both reports had not been accurately calculated. Seven of seven line-items tested in the reports were not correct. For example, in May 1985 the center reported $72,535 of food, labor, and other costs

on the monthly financial report. The center should have reported $54,401. The costs on that report were overstated by 33.3 percent.

OPI officials stated they use the reports for internal decision making such as making cost comparisons among agencies. The center should ensure the costs reported on the financial report are accurate so OPI has reliable grant data. These reports did not affect the amount of federal funds paid to the center under this grant.

RECOMMENDATION #2

WE RECOMMEND THE CENTER ACCURATELY PREPARE MONTHLY FINANCIAL REPORTS FOR THE SCHOOL NUTRITION GRANT.

FEMA GRANT CLOSE-OUT

The center received a grant from the Federal Emergency Management Agency (FEMA) for damages caused by a flood in 1981. The grant was administered through the Department of Military Affairs, Disaster and Emergency Services Division (DES). Under the supervision of DES, the center and the Department of Administration's Architecture and Engineering (A&E) Division issued contracts to have the flood damages repaired. As of the end of our audit, the final claim had not been submitted by DES to FEMA for reimbursement.

Center officials said their final reports for the grant were submitted to DES in September 1982. The last repair project allowed under the FEMA grant, which was done by the A&E Division, was completed in November of 1983. A DES official estimated $36,650 of General Fund Reimbursements are being withheld by FEMA pending submittal and approval of the final claim. The state has been losing interest income on these funds at a rate of approximately $4,000 per year. The official indicated the grant was not closed out in a timely manner because the state agencies have not yet submitted the required final reports. The

center's final reports were submitted. A&E Division officials said that they were not aware that additional reports were required by DES.

DES, as the FEMA grant coordinator, has the responsibility to ensure all required documentation is properly completed. It is also DES's responsibility to ensure the FEMA grant is finalized in a timely manner so that the state General Fund can be reimbursed for all eligible costs. DES should have taken the necessary action to ensure the A&E Division provided all required FEMA reports in a timely manner.

RECOMMENDATION #3

WE RECOMMEND THE DEPARTMENT OF MILITARY AFFAIRS ESTABLISH PROCEDURES TO ENSURE THE FEMA GRANTS ARE PROPERLY CLOSED OUT IN A TIMELY MANNER.

STATE COMPLIANCE

We reviewed compliance with state laws and regulations that could have a material impact on the financial schedules of the center. In our opinion, except for the instance of noncompliance concerning the Contingent Revolving Fund explained below, the center complied with state laws and regulations tested. Nothing came to our attention that causes us to believe untested compliance issues are not in accordance with applicable laws and regulations.

Contingent Revolving Fund

The center is not complying with the intent of section 17-2-201, MCA, which requires that Contingent Revolving Funds (CRF) be used only for purposes demanding immediate payment. We noted four travel advances out of six tested were not emergency travel requests. In each of the four cases, the travel had been approved at least two weeks before the travel took place. In these cases, the center could have requested a state warrant rather than processing a check through the Contingent Revolving Fund.

The center only reimburses the Contingent Revolving Fund approximately every other month. State policy requires state agencies to reimburse the CRF at least monthly and weekly reimbursements are suggested. In the interest of internal controls and efficient cash management, state policy requires CRF account balances be maintained at the minimum amount necessary to meet the demonstrated needs of the agency. Once the center limits CRF expenditures to only those demanding immediate cash payment, and once it begins reimbursing the CRF fund weekly, the center could better manage the balance in the CRF.

Currently the center maintains a $2,480 balance in the CRF. A center official estimated the balance could be reduced by approximately $500 to $1,000 if the fund were reimbursed weekly.

RECOMMENDATION #4

WE RECOMMEND THE CENTER:

A. MAKE ONLY EXPENDITURES DEMANDING IMMEDIATE PAYMENT FROM THE CONTINGENT REVOLVING FUND IN ACCORDANCE WITH STATE LAW.

B. REIMBURSE THE CONTINGENT REVOLVING FUND ON A MORE FREQUENT BASIS.

C. REDUCE THE BALANCE OF THE CONTINGENT REVOLVING FUND TO MEET THE MINIMUM DEMONSTRATED NEEDS OF THE CENTER.

ACCOUNTING ISSUES

The center's Fiscal Services Section is responsible for proper application of accounting procedures. The section follows state accounting policy as detailed in the Montana Operations Manual. We reviewed the section's procedures for recording transactions on the state's accounting system. We noted the following concerns with the section's accounting procedures.

Building Valuations

The center has recorded its land, buildings and equipment on the state's accounting records. However, asset valuations for buildings were not established in accordance with state policy. State policy requires state agencies to record purchased fixed assets at original cost. If the original cost information is not available, or an inordinate expenditure of resources is required to establish original cost, agencies may estimate the original cost of such assets. The Montana Operations Manual indicates estimates should be based upon available documentary evidence including price levels at the time of acquisition.

Center officials indicated the buildings' values were taken from a document prepared by the Department of Administration (DofA) in 1966. Our review of the DofA document and other documentation kept by the center showed significant differences between values for buildings reported by DofA and the values reported on the other support documentation. The documents did not indicate the source of the information, who prepared the information, or whether the information presented was original cost, estimated original cost, or replacement value. Center officials did not know whether the DofA document reported replacement value, estimated original cost, or original cost.

RECOMMENDATION #5

WE RECOMMEND THE CENTER ESTABLISH COSTS FOR ITS BUILDINGS IN ACCORDANCE WITH STATE POLICY.

Federal Grant Revenues

The center improperly recorded moneys received from the Federal Emergency Management Agency (FEMA) as prior year revenue adjustments in the General Fund. State accounting policy requires that federal moneys which are legally restricted to expenditures for specific purposes be recorded in the Special Revenue Fund. State policy also requires that transactions be accounted for in a consistent manner.

In fiscal years 1981-82 and 1982-83 the center recorded FEMA revenues in the Special Revenue Fund. In fiscal year 1983-84 the center recorded a prior year revenue adjustment of $27,411 for the FEMA moneys in the General Fund. The grant expenditures were originally recorded in the General Fund. Because the center wanted to reimburse the General Fund for expenditures made out of that fund in fiscal year 1982-83, the center should have recorded prior year expenditure and revenue adjustments of $27,411 in the Special Revenue Fund and it should have abated prior year expenditure adjustments in the General Fund. For a more detailed description of the misstatements see Note 7 to the financial schedules on page 26.

RECOMMENDATION #6

WE RECOMMEND THE CENTER ACCOUNT FOR FEDERAL MONEYS IN ACCORDANCE WITH STATE POLICY.

Improper Recording of Expenditures

In fiscal year 1984-85, center officials issued two purchase orders for items they did not want to receive until July 1985. One purchase order was issued April 1985 and the goods were received that same month. Another purchase order was issued in May 1985 and items were received in early June. If the center had followed state accounting policy, it would have recorded expenditures for the items purchased in fiscal year 1984-85. However, the center waited until fiscal year 1985-86 to record the expenditures. State accounting policy requires expenditures be recorded in the fiscal year that they become valid obligations of the state. The two purchase transactions were not valid obligations of fiscal year 1985-86 and should be expensed in the year received. Fiscal year 1984-85 expenditures in the state's General Fund are understated by $3,600 while fiscal year 1985-86 expenditures are overstated by the same amount.

RECOMMENDATION #7

WE RECOMMEND THE CENTER RECORD EXPENDITURES IN THE APPROPRIATE YEAR AS REQUIRED BY STATE POLICY.

Fund Balances

The center improperly recorded accounting entries to zero out the School Nutrition program's fund balance in the Special Revenue Fund during fiscal years 1982-83 and 1984-85. The School Nutrition grant should report a fund balance at the end of each year because the balance in the account was earned by the center.

Also, when the center erroneously recorded entries to zero out the fund balance, other accounting errors were made that affected revenue and expenditures in the Special Revenue Fund. Because of the errors, prior year revenue adjustments and expenditures were understated by $3,985 in fiscal year 1983-84 and revenue, expenditures and fund balance were understated by $350 in the Special Revenue Fund in fiscal year 1984-85.

RECOMMENDATION #8

WE RECOMMEND THE CENTER PROPERLY RECORD FUND BALANCES IN THE SCHOOL NUTRITION GRANT PROGRAM.

Expenditure Accrual

The Department of Institutions instructed the Montana Developmental Center to accrue $10,000 of expenditures at the end of fiscal year 1983-84 based on a $138,100 Systems Development Bureau (SDB) Service Agreement between SDB and the Department of Institutions. This transaction was not a valid obligation of fiscal year 1983-84 in accordance with state policy and therefore it should have been recorded in the following year. We addressed this situation in the Montana State Hospital report for the two fiscal years ended June 30, 1984.

In fiscal year 1983-84, the center's expenditures are overstated by $10,000 in the General Fund.

Language was included in HB 206 passed by the 1985 legislature to permit the Department of Institutions to utilize these accruals for the Data Processing System. This bill was signed into law by the Governor and the department will utilize these accruals. Therefore, we make no recommendation.

Donations

We noted in the previous audit of the center that donations from private sources are improperly deposited in the Agency Fund. Because the Agency Fund is nonbudgeted and requires no appropriation authority to spend moneys, the center's placement of donations in this fund circumvents the appropriation process. The placement of donations in the Special Revenue Fund is required by state law. As donations are used for the general operation of the center, it should budget for donations and obtain a legislative appropriation to spend the funds.

Center officials corrected its accounting procedures in fiscal year 1985-86 to properly record donations in the Special Revenue Fund as required by state law. However, since the changes were not made until after our audit period, revenues and expenditures in the Special Revenue Fund were misstated in fiscal years 1983-84 and in 1984-85. The amount of the misstatements are outlined in note 6 to the financial schedules. Because this problem has been corrected, we make no recommendation.

INTERNAL CONTROL

We have examined the financial schedules of the Montana Developmental Center for the fiscal years ending June 30, 1984, and 1985. We issued our opinion dated August 9, 1985, on these schedules. As part of our examination, we made a study and evaluation of the system of control of the Montana Developmental Center. Our study evaluated the system as required by generally accepted auditing standards and Standards for Audit of Governmental Organizations, Programs, Activities and Functions. We classified the controls in the following categories:

1. revenue;
2. expenditures;
3. payroll;
4. plant, property, and equipment; and
5. resident accounts.

Our study included the control categories listed above. Through our study, we determined the nature, timing, and extent of our auditing procedures. We applied alternative audit tests to revenue; plant, property, and equipment; expenditures; and resident accounts because the audit could be performed more efficiently by expanding substantive audit work. Because the center received only three federal grants, we did not study or evaluate controls over these grants. However, we performed specific compliance testing on each grant to determine whether the center complied with federal regulations. We did not evaluate the control system to the extent necessary to give an opinion on either individual segments or the system as a whole.

The management of the Montana Developmental Center is responsible for establishing and maintaining a system of accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable assurance that: 1) assets are safeguarded against loss from unauthorized use or disposition; 2) transactions are executed in accordance with management's authorization; and 3) transactions are recorded properly to permit the preparation of financial schedules in accordance with state accounting policies. Inherent limitations in any system of controls may allow errors or irregularities to remain undetected. The current evaluation of the system should not be used to project to future periods since the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of our study described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of controls used by the Montana Developmental Center.

However, our study and evaluation disclosed no condition that we believed to be a material weakness.

The preceding three paragraphs are intended solely for the use of management and the Legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of this document which, upon presentation to the Legislative Audit Committee, is a matter of public record.

AUDITOR'S REPORT

AND SCHEDULES OF AGENCY FINANCIAL ACTIVITY

SUMMARY OF AUDIT OPINION

The auditor's opinion issued in this report is intended to convey to the reader of the financial schedules the degree of reliance that can be placed on the amounts presented. We issued an adverse opinion on certain schedules listed in the auditor's opinion beginning on page 14 of this report. An adverse opinion indicates that the financial schedules do not present fairly the results of operations and/or changes in fund balance of such funds of the Montana Developmental Center. The reader should not place reliance on the amounts presented in these schedules.

We issued a qualified opinion on certain other schedules in the report. A qualified opinion indicates, except for the effect of certain matters which are identified in the auditors report, the financial schedules present fairly the results of operations and/or changes in fund balance of such funds of the Montana Developmental Center. These schedules are misstated due to problems which are discussed in the auditor's opinion. The reader should use caution when using financial information in these schedules.

Finally, we issued an unqualified opinion on other financial schedules and funds shown in this report. An unqualified opinion means that the schedules are fairly stated in all material respects and the user of this Statewide Budgeting and Accounting System (SBAS) information can rely on the information presented.

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

SCOTT A. SEACAT
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS:
JAMES GILLETT
FINANCIAL-COMPLIANCE AUDITS
JIM PELLEGRINI
PERFORMANCE AUDITS
LEGAL COUNSEL:
JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the financial schedules of the various funds of the Montana Developmental Center for each of the fiscal years ending June 30, 1984, and 1985 as shown on pages 17 through 27. Our examination was made in accordance with generally accepted auditing standards and <u>Standards for Audits of Governmental Organizations, Programs, Activities, and Functions</u> and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The center's financial schedules are prepared in accordance with the basis of accounting described in Note 1 to the financial schedules. Accordingly, the accompanying financial schedules are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

During fiscal years 1983-84 and 1984-85, the center improperly accounted for donations from private sources in the Agency Fund rather than the Special Revenue Fund. The resulting misstatements are detailed in Note 6.

The center improperly accounted for certain federal grant transactions in the General Fund rather than the Special Revenue Fund. The resulting misstatements are described in Note 7.

Department of Institutions Central Office accrued revenue at June 30, 1985 for services rendered, but for which no payment had yet been received. Revenue for these services should not have been accrued because the transactions did not meet the

"measurable and available" criteria for accrual as required by state accounting policy. As a result, in the General Fund, reimbursement revenue is overstated by $341,954 and support from the state of Montana is understated by the same amount for fiscal year 1984-85.

In our opinion, because of the effects of the items discussed in paragraphs three and four, the financial schedules listed below do not present fairly the results of operations and changes in fund balance of such funds of the Montana Developmental Center for the two fiscal years ended June 30, 1985, in conformity with the basis of accounting described in Note 1.

Schedule Name	Fund	Fiscal Year
Schedule of Changes in Fund Balance	Special Revenue	Two Fiscal Years Ended June 30, 1985
Schedule of Revenue - Estimate and Actual	Special Revenue	1983-84
Schedule of Program Expenditures by Fund - Budget and Actual	Special Revenue	1984-85
Schedule of Additions and Deductions to Agency Fund Assets		Two Fiscal Years Ended June 30, 1985

In our opinion, except for the effect of the matters discussed in paragraphs three and five, the financial schedules listed below present fairly the results of operations and the changes in fund balance of such funds of the Montana Developmental Center for the two fiscal years ended June 30, 1985, in conformity with the basis of accounting described in Note 1 applied on a consistent basis.

Schedule Name	Fund	Fiscal Year
Schedule of Changes in Fund Balance	General	Two Fiscal Years Ended June 30, 1985
Schedule of Revenue - Estimate and Actual	General Special Revenue	1984-85
Schedule of Program Expenditures by Fund - Budget and Actual	Special Revenue	1983-84

In our opinion, the financial schedules listed below present fairly the results of operations, the changes in fund balance and the grant receipts of such funds of the Montana Developmental Center for the two fiscal years ended June 30, 1985, in conformity with the basis of accounting described in Note 1 applied on a consistent basis.

Schedule Name	Fund	Fiscal Year
Schedule of Revenue - Estimate and Actual	General	1983-84
Schedule of Program Expenditures by Fund - Budget and Actual	General	1983-84, 1984-85
Schedule of Program Expenditures by Object		1983-84, 1984-85
Schedule of Receipts and Disbursements	Care and Maintenance Trust Account	Two Fiscal Years Ended June 30, 1985
Schedule of Grants		1983-84, 1984-85

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

August 9, 1985

MONTANA DEVELOPMENTAL CENTER
DEPARTMENT OF INSTITUTIONS
SCHEDULE OF CHANGES IN FUND BALANCE
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1985

	General	Special Revenue
FUND BALANCE, July 1, 1983	$ -0- [1]	$ 4,572
ADDITIONS:		
Fiscal Year 1983-84		
Budgeted Revenue	4,953,271	60,577
Nonbudgeted Revenue	(184,853) [2]	(1,143) [2]
Total Revenue	4,768,418	59,434
Prior Year Revenue Adjustments	2,103,298 [3]	50
Support from State of Montana	3,483,258	
Fiscal Year 1984-85		
Budgeted Revenue	8,021,199	69,009
Nonbudgeted Revenue	(64,670) [2]	18 [2]
Revenue Refund	(1,986)	
Total Revenue	7,954,543	69,027
Prior Year Revenue Adjustment	1,380,475 [3]	3,428
Support from State of Montana	1,221,333	
Total Additions	20,911,825	131,939
REDUCTIONS:		
Fiscal Year 1983-84		
Budgeted Expenditures	10,376,220	60,114
Prior Year Expenditure Adjustments	(21,246)	
Cash Transfers Out		3,428
Fiscal Year 1984-85		
Budgeted Expenditures	10,578,768	58,779
Nonbudgeted Expenditures		
Total Expenditures	10,578,768	58,779
Prior Year Expenditure Adjustments	(21,917)	(27)
Cash Transfers Out		3,680
Total Reductions	20,911,825	125,974
FUND BALANCE, June 30, 1985	$ -0- [1]	$ 10,537

[1] See Note 3 to the financial schedules.

[2] This is an adjustment for the decrease in inventory.

[3] Prior year adjustments are primarily Medicaid adjustments paid to the state in the current year based on costs incurred by the state in the previous year.

Note: The care and maintenance trust account is recorded on SBAS in the Nonexpendable Trust Fund. However, the center accounted for it similar to an Agency Fund where no nominal activity is recorded. Consequently, the Nonexpendable Trust Fund is not included in the Schedules of Changes in Fund Balance but is reported in a separate schedule. See the Care and Maintenance Trust Account Schedule of Receipts and Disbursements on page 21.

These schedules are compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 23 through 27.

MONTANA DEVELOPMENTAL CENTER
DEPARTMENT OF INSTITUTIONS
SCHEDULE OF REVENUE - ESTIMATE AND ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1985

	Reimbursements	Sale of Documents, Merchandise, and Property	Miscellaneous	Transfers	Federal Assistance	Total
FISCAL YEAR 1984-85						
General Fund						
Estimated Revenue	$7,440,625[1]		$5,500	$ -0-		$7,446,125
Actual Revenue	8,015,419[1]		5,780	(64,670)		7,956,529
Collections Over (Under) Estimate	$ 574,794		$ 280	$(64,670)*		$ 510,404
Special Revenue Fund						
Estimated Revenue	$ 18,300	$7,500		$ -0-	$53,484	$ 79,284
Actual Revenue	15,455	8,939		(18)	44,615	68,991
Collections Over (Under) Estimate	$ (2,845)	$1,439		$ (18)	$(8,869)	$ (10,293)
FISCAL YEAR 1983-84						
General Fund						
Estimated Revenue	$4,950,000[1]		$3,500	$ -0-		$4,953,500
Actual Revenue	4,947,245[1]		6,026	(184,853)*		4,768,418
Collections Over (Under) Estimate	$ (2,755)		$2,526	$(184,853)		$ (185,082)
Special Revenue Fund						
Estimated Revenue		$12,200		$ -0-	$20,302	$ 32,502
Actual Revenue		8,011		(1,143)*	52,566	59,434
Collections Over (Under) Estimate		$(4,189)		$ (1,143)	$32,264	$ 26,932

*This is an adjustment to record a Decrease in Inventory and not a transfer.

[1] Revenue in 1983-84 differs from that in 1984-85 by over $3 million. The center received a retroactive Medicaid payment in 1984-85 of $1,855,371 which they should have accrued at fiscal year-end 1983-84. There was also a 62% increase in the Medicaid rates between 1983-84 and 1984-85.

These schedules are compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 23 through 27.

MONTANA DEVELOPMENTAL CENTER
DEPARTMENT OF INSTITUTIONS
SCHEDULE OF PROGRAM EXPENDITURES BY FUND
BUDGET AND ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1985

	SERVICES AND SUPPORT PROGRAM	
	Fiscal Year 1984-85	Fiscal Year 1983-84
GENERAL FUND		
Budget	$10,844,946	$10,778,899
Actual		
Personal Services	8,963,237	8,672,918
Operating Expenses	1,575,925	1,617,482
Equipment	39,606	46,759
Capital Outlay		39,061
Total Actual	10,578,768	10,376,220
Unspent Appropriation Authority	$ 266,178	$ 402,679
SPECIAL REVENUE FUND		
Budget	$ 81,632	$ 65,824
Actual		
Personal Services	33,468	32,216
Operating Expenses	24,791	27,598
Equipment	521	300
Total Actual	58,780	60,114
Unspent Appropriation Authority	$ 22,852	$ 5,710
ALL FUNDS TOTAL		
Budget	$10,926,578	$10,844,723
Actual		
Personal Services	8,996,705	8,705,134
Operating Expenses	1,600,716	1,645,080
Equipment	40,127	47,059
Capital Outlay		39,061
Total Actual	10,637,548	10,436,334
Unspent Appropriation Authority	$ 289,030	$ 408,389

These schedules are compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 23 through 27.

MONTANA DEVELOPMENTAL CENTER
DEPARTMENT OF INSTITUTIONS
SCHEDULE OF PROGRAM EXPENDITURES BY OBJECT
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1985

	SERVICES AND SUPPORT PROGRAM	
	Fiscal Year 1984-85	Fiscal Year 1983-84
PERSONAL SERVICES		
Salaries	$ 6,969,992	$ 6,892,992
Employee Benefits	2,018,458	1,812,142
Total Personal Services	8,988,450	8,705,134
OPERATING EXPENSES		
Contracted Services	246,646	202,705
Supplies and Materials	673,025	736,341
Communications	68,202	71,842
Travel	10,857	14,580
Rent	10,528	10,966
Utilities	506,339	516,301
Repair and Maintenance	74,761	72,829
Other Expenses	10,359	11,974
Goods Purchased for Resale	8,255	7,542
Total Operating Expenses	1,608,972	1,645,080
EQUIPMENT	40,127	47,059
CAPITAL OUTLAY		
Buildings		39,061
Total Capital Outlay		39,061
TOTAL PROGRAM EXPENDITURES	$10,637,549	$10,436,334

These schedules are compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 23 through 27.

MONTANA DEVELOPMENTAL CENTER
DEPARTMENT OF INSTITUTIONS
SCHEDULE OF ADDITIONS AND DEDUCTIONS TO AGENCY FUND ASSETS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1985

Property Held in Trust Balance, July 1, 1983	$ 127,739
ADDITIONS:	
Nonbudgeted Receipts	415,473
DEDUCTIONS:	
Nonbudgeted Disbursements	(326,034)
Property Held in Trust Balance, June 30, 1984	$ 217,178
ADDITIONS:	
Nonbudgeted Receipts	360,055
DEDUCTIONS:	
Nonbudgeted Disbursements	(434,590)
Property Held in Trust Balance, June 30, 1985	$ 142,643

The amounts on the above schedule were obtained from the center's manual accounting records for resident accounts and for donations.

MONTANA DEVELOPMENTAL CENTER
DEPARTMENT OF INSTITUTIONS
CARE AND MAINTENANCE TRUST ACCOUNT
SCHEDULE OF RECEIPTS AND DISBURSEMENTS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1985

Property Held in Trust Account Balance July 1, 1983		$1,001,103
Receipts:		
Receipts for Fiscal Year 1983-84	$ 193,706	
Receipts for Fiscal Year 1984-85	248,375	
Total Receipts		442,081
Disbursements:		
Disbursements for Fiscal Year 1983-84	-0-	
Disbursements for Fiscal Year 1984-85	(1,089)[1]	
Total Disbursements		(1,089)
Property Held in Trust Account Balance June 30, 1985		$1,442,095

[1] This was a refund to Social Security for an overpayment made to one of the patients.

This schedule was compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 23 through 27.

MONTANA DEVELOPMENTAL CENTER
DEPARTMENT OF INSTITUTIONS
SCHEDULE OF GRANTS
FISCAL YEARS ENDING JUNE 30, 1984 AND 1985

	Grant Number	1983-84 Receipts	Grant Number	1984-85 Receipts
U.S. Department of:				
Education				
Chapter I	84-32-6003-2413	$35,271	85-32-6003-3413	$27,145
Chapter II	84-39-6003-2356	520	85-39-6003-3356	521
Agriculture				
School Nutrition	92060034	19,598	92060035	16,898
State of Montana:				
State Match of School Nutrition	206003	803	206003	613
Total		$56,192		$45,177

All grants listed in the schedule above are subgrants received by the center from the Montana Office of Public Instruction.

The schedule has been prepared on a cash basis. Additional information is provided in the notes to the financial schedules on pages 23 through 27.

MONTANA DEVELOPMENTAL CENTER

DEPARTMENT OF INSTITUTIONS

NOTES TO FINANCIAL SCHEDULES

June 30, 1984 and June 30, 1985

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies for the Montana Developmental Center.

Basis of Presentation

The financial schedules, except for the Schedule of Grants as discussed below, are prepared from the Statewide Budgeting and Accounting System without adjustments. Accounts are organized on the basis of funds according to state law. The following fund types are used by the center:

General Fund - accounts for all financial resources except those required to be accounted for in other funds. The majority of revenues recorded in this fund are reimbursements for medical services from Medicare, Medicaid, private insurance companies, and residents or their guardians. Expenditures are for the general operations of the center.

Special Revenue Fund - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Legislative appropriation is required to spend from this fund. Revenue during our audit period consists of three federal subgrants from the Office of Public Instruction. Approximately 61 percent of expenditures in this fund are for salaries of Chapter I grant teachers and 39 percent for food expenditures of the school lunch grant.

Trust and Agency Fund - accounts for assets held in trust or as an agent by the center for residents. The source of receipts to this fund are from resident income and the care and maintenance fund (see notes 8 and 9).

The Montana Developmental Center utilizes the modified accrual basis of accounting which is described in the Montana Operations Manual. Under the modified accrual basis of accounting, a valid obligation exists when the associated liability is

incurred except for the following items which are also considered valid obligations under state accounting policy.

- If the appropriation provided funds to complete a given project, the entire amount of an unperformed contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.

- The anticipated cost of equipment is expensed in the fiscal year in which budgeted.

- Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.

The Schedule of Grants is required by federal regulations and it presents the amount of grant receipts received by the agency. The Schedule of Grants is prepared on the cash basis of accounting.

Vacation and Sick Leave

Employees for the center accumulate both vacation and sick leave. Employees are paid for 100 percent of unused vacation and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for vacation and sick leave are not reflected in the financial schedules of the Montana Developmental Center. Expenditures for termination pay currently are absorbed in the annual operating costs of the center. At June 30, 1985, the center had a liability of $349,235 for vacation leave and $139,390 for sick leave.

2. PENSION PLAN

Employees are covered by the Montana Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS). The center's contribution to these plans is shown below.

	Fiscal Year 1983-84	Fiscal Year 1984-85
PERS	$426,511	$431,135
TRS	17,978	18,809

3. GENERAL FUND BALANCE

The General Fund is a Statewide Fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the Statewide General Fund as long as they stay within their appropriation limits. Thus on an agency schedule the beginning and ending fund balance will always be zero.

4. BENEFITS

The center provides one meal per shift to all employees as a historical or contracted benefit. The approximate value of these meals was $106,645 and $109,985 in fiscal years 1983-84 and 1984-85.

5. CARE AND MAINTENANCE SERVICE FEES

Care and maintenance service fees are funds received for resident services provided by the center. The center receives care and maintenance service fees from four sources: Medicare, Medicaid, private insurance companies, and individuals responsible for the residents. Care and maintenance service fees are deposited in the General Fund in accordance with section 53-1-413, MCA. These fees are classified as Reimbursements on the financial schedules.

6. FUND PLACEMENT

The center accounts for private donations in the Agency Fund which would be more appropriately accounted for in the Special Revenue Fund. The following outlines the over and under statements in the Agency and Special Revenue Funds, respectively.

	Fiscal Year 1983-84	Fiscal Year 1984-85
Revenue	$100,975	$ 13,036
Expenditures	11,573	77,611
Beginning Balance	13,981	103,377

7. PRIOR YEAR ADJUSTMENTS

The center improperly accounted for federal grant transactions in the General Fund rather than the Special Revenue Fund. Due to errors made by the center in recording these transactions the following over (under) statements were noted:

	Fiscal Year 1983-84
GENERAL FUND	
Prior Year Revenue Adjustments	$ 27,411
Prior Year Expenditure Adjustments	27,411
SPECIAL REVENUE FUND	
Prior Year Revenue Adjustments	(27,411)
Prior Year Expenditure Adjustments	(27,411)

8. RESIDENT ACCOUNTS

Montana Developmental Center administers the funds of residents while they are at the center. The personal funds of the residents are deposited in local banks. The schedule below shows the activity of the checking and savings accounts:

Balance July 1, 1983	$113,759
Fiscal Year 1984	
Receipts	314,498
Disbursements	(314,461)
Balance June 30, 1984	$113,796
Fiscal Year 1985	
Receipts	347,018
Disbursements	(356,979)
Balance June 30, 1985	$103,835

9. CARE AND MAINTENANCE TRUST ACCOUNT

Under state regulations, income sent to residents from Social Security, insurance companies, and other private sources may be taken from residents' accounts to reimburse the state for the cost of care. In 1976, Montana Legal Services filed a class action suit against the Department of Institutions challenging the legality of removing these funds without a guardian's permission. The Department of Institutions has required the center to hold moneys in trust pending resolution of the suit. As of June 30, 1985, the center had accumulated $1,442,095 in the Care and Maintenance Trust Account. Final resolution of this lawsuit will determine what portion of this money will revert to the residents, and what portion will be deposited to the state General Fund.

10. CONTINGENT LIABILITIES

At June 30, 1985, the center may be involved in an administrative grievance or litigation for reinstatement and back pay for one individual which could result in an unfavorable outcome. It was not practical to estimate the amount of this contingent liability.

AGENCY REPLIES

DEPARTMENT OF INSTITUTIONS

TED SCHWINDEN, GOVERNOR

1539 11TH AVENUE

STATE OF MONTANA

(406) 444-3930

HELENA, MONTANA 59620

November 1, 1985

RECEIVED

MONTANA LEGISLATIVE AUDITOR

Legislative Audit Committee
of the Montana State Legislature
Office of the Legislative Auditor
State Capitol
Helena, MT 59620

Gentlemen:

We have reviewed the audit report prepared by the Office of the Legislative Auditor for the Montana Developmental Center.

The report provides a very welcome service and is sincerely appreciated.

Our response to recommendations is attached.

Sincerely,

CARROLL V. SOUTH
Director

CVS:jb

Attachment

RECOMMENDATION #1

WE RECOMMEND THE CENTER USE THE CHAPTER I GRANT FUNDS FOR ONLY THOSE RESIDENTS ELIGIBLE UNDER THE PROGRAM REGULATIONS.

RESPONSE

Concur. Students who required remedial services under the Office of Civil Rights Agreement were served by Chapter 1 Aides. This service was discontinued 12/31/84.

RECOMMENDATION #2

WE RECOMMEND THE CENTER ACCURATELY PREPARE MONTHLY FINANCIAL REPORTS FOR THE SCHOOL NUTRITION GRANT.

RESPONSE

Concur. This was a clerical error in which a wrong percentage was used. This error did not affect Federal Funds received as OPI uses these reports for internal decision making for all agencies. Future reports will be reviewed carefully before being submitted to OPI.

RECOMMENDATION #3

WE RECOMMEND THE DEPARTMENT OF MILITARY AFFAIRS ESTABLISH PROCEDURES TO ENSURE THE FEMA GRANTS ARE PROPERLY CLOSED OUT IN A TIMELY MANNER.

RESPONSE

Concur. The Department of Military Affairs has responded to this recommendation.

RECOMMENDATION #4

WE RECOMMEND THE CENTER:

A. MAKE ONLY EXPENDITURES DEMANDING IMMEDIATE PAYMENTS FROM THE CONTINGENT REVOLVING FUND IN ACCORDANCE WITH STATE LAW.

B. REIMBURSE THE CONTINGENT REVOLVING FUND ON A MORE FREQUENT BASIS.

C. REDUCE THE BALANCE OF THE CONTINGENT REVOLVING FUND TO MEET THE MINIMUM DEMONSTRATED NEEDS OF THE CENTER.

RESPONSE

A. Concur. The Center will establish a practice in which those employees desiring a travel advance will attach the advance request to the travel request form so that the accounting office will know who an advance should be issued to in sufficient time to process a claim for a State Warrant.

B. Concur. The Center will reimburse the Contingent Revolving Fund according to State Policy.

C. Concur. The Center will monitor the needs of the Contingent Revolving Fund and reduce the balance appropriately.

RECOMMENDATION #5

WE RECOMMEND THE CENTER ESTABLISH COSTS FOR ITS BUILDINGS IN ACCORDANCE WITH STATE POLICY.

RESPONSE

Concur. Documents obtained from the Tort Claims Division reflect original cost of most major buildings. These will be used to adjust the fixed asset valuation on inventory of those buildings. The remaining buildings will have an estimate of original cost determined in accordance with State Policy.

RECOMMENDATION #6

WE RECOMMEND THE CENTER ACCOUNT FOR FEDERAL MONEYS IN ACCORDANCE WITH STATE POLICY.

RESPONSE

Concur. The Center will account for Federal moneys in accordance with State Policy.

RECOMMENDATION #7

WE RECOMMEND THE CENTER RECORD EXPENDITURES IN THE APPROPRIATE YEAR AS REQUIRED BY STATE POLICY.

RESPONSE

Concur. The Center will not accept merchandise earmarked for another fiscal year until after July 1 of that year. A correcting journal voucher will be processed to remove these expenditures from FY 86 and affect Prior Year expenditures.

RECOMMENDATION # 8

WE RECOMMEND THE CENTER PROPERLY RECORD FUND BALANCES IN THE SCHOOL NUTRITION GRANT PROGRAM.

RESPONSE

Concur. FYE 84 was recorded improperly due to an understanding that Federal Fund accounts could not reflect a cash balance. This was corrected and FYE 85 was handled properly. The understated expenditures and Fund Balances were created by the improper closing of Fund Balances.

cvs/jb

DEPARTMENT OF MILITARY AFFAIRS

TED SCHWINDEN, GOVERNOR — P.O. BOX 4789

STATE OF MONTANA

OFFICE OF THE ADJUTANT GENERAL — HELENA, MONTANA 59604-4789
(406) 444-6910

October 18, 1985

Office of the Legislative Auditor
State Capitol
Helena, Mt 59620

ATTN: James Gillett

Dear Mr. Gillett:

Reference your letter of September 1985, and the attached report section pertaining to this department resulting from your work at the Montana Development Center, Department of Institutions.

This is to advise you that this department concurs with your recommendation number 3 in that this department will establish procedures to ensure every feasible measure is taken to properly close out FEMA grants in a timely manner.

The following procedures are being implemented immediately in this regard:

a. All state agencies which may have an involvement in any future presidentially declared disaster, will at the time of declaration be fully advised as to all required reports, audits, etc. which may be required of them to permit the timely close out of any grants received. The Disaster and Emergency Services Division will maintain a listing, by individual and date of contact, of those state agencies so advised.

b. DES will require the employee, assigned the responsibility as the division point of contact, to report to the administrator of the division on the status of any project involving FEMA funding. Reports will be required on a monthly basis or more often as deemed appropriate by the administrator.

c. If, in the judgment of the administrator, it should appear an unreasonable amount of time could occur in the closing of a grant, the affected department director will be contacted by the administrator of DES and be so advised.

d. DES will make every effort to have FEMA complete their final review and audit of grants received to affect final close out as timely as possible.

Sincerely,

James W. Duffy

JAMES W. DUFFY
MAJOR GENERAL, MT ARNG
The Adjutant General